

Message Text

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PAGE 01 QUITO 08914 242251Z
ACTION ARA-10

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C O N F I D E N T I A L QUITO 8914

FOR DELIVERY 0900 25 DEC 76 TO ARA DESK OFFICER

E.O. 11652: GDS
TAGS: ENRG, EINV, PFOR, EC
SUBJECT: GULF-GOE NEGOTIATIONS

REF: QUITO 8913

1. SUMMARY: POVEDA TOLD ME DECEMBER 24 THAT THE GOE MAY BE FORCED TO DECREE TRANSFER OF GULF'S ASSETS TO CEPE DECEMBER 31 AND ASKED ME TO PERSUADE GULF TO MAKE AN EFFORT TO REACH AGREEMENT BY THAT DATE. I TOLD POVEDA I WAS VERY DISAPPOINTED WITH THIS TURN OF EVENTS WHICH I REGARDED AS A DIRECT RESULT OF THE GOE'S FAILURE TO NEGOTIATE IN GOOD FAITH. LOCAL GULF REPRESENTATIVES HAVE AGREED TO PRESENT AN ALTERNATIVE DECREE EARLY NEXT WEEK. END SUMMARY:

2. AS PER REFTEL DCM MET WITH SECRETARY GENERAL FOR ADMINISTRATION THIS MORNING AND LEFT COPY OF MEMORANDUM OUTLINING GULF'S OBJECTIONS TO THE DECREE AND POINTING OUT THE DECREE'S VIOLATION OF THE GOE-USG UNDERSTANDING. GARCES TOLD THE DCM THAT POVEDA WAS WELL AWARE OF THE DECREE AND THOUGHT THAT THE \$82 MILLION FIGURE WAS PROBABLY TOO LOW AND THAT THE DECREE SHOULD INCLUDE A QUIT CLAIM. HE MADE NO COMMENT, HOWEVER, ON THE DECEMBER 31 TRANSFER DATE.

3. IMMEDIATELY FOLLOWING THIS MEETING, I RECEIVED A CALL FROM
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ADMIRAL POVEDA. POVEDA TOLD ME THAT, DUE TO THE PUBLICITY OF THE DECEMBER 31 TRANSFER DATE, HE FELT THAT THE GOE WOULD HAVE TO TAKE SOME ACTION WHICH EFFECTED THE TRANSFER ON THAT DATE. HE EXPLAINED THAT HE WAS UNDER PRESSURE FROM ALL SIDES--HE OBLIQUELY MENTIONED THE MILITARY SERVICES--TO TAKE OVER GULF'S ASSETS. HE ASKED ME PERSUADE GULF TO MAKE AN EFFORT TO COME TO A SETTLEMENT

BY THAT DATE.

4. I TOLD POVEDA QUITE STRONGLY THAT I WAS DISAPPOINTED WITH THIS INFORMATION, SINCE HE HAD REPEATEDLY ASSURED ME THAT THE DECEMBER 31 TRANSFER DATE WOULD BE POSTPONED. I POINTED OUT THAT THE GOE HAD FAILED TO NEGOTIATE IN GOOD FAITH; AND I BELIEVED THAT ANY COUNTERPROPOSAL GULF MIGHT MAKE WITHIN THE NEXT FEW DAYS WOULD BE USELESS IF VARGAS WERE STILL IN CHARGE OF THE NEGOTIATIONS. I TOLD HIM GULF WOULD PROVIDE THE GOE WITH A COUNTERPROPOSAL EARLY NEXT WEEK.

5. I IMMEDIATELY CALLED IN LOCAL GULF MANAGER JACK O'BRIEN, TOLD HIM OF MY DISCUSSION WITH POVEDA, AND ASKED HIM TO MAKE SOME ATTEMPT TO PRESENT THE GOVERNMENT WITH A SOLUTION THAT COULD BE USED AS A FACE-SAVING MECHANISM ON DECEMBER 31 BUT WHICH WOULD PROTECT GULF'S NEGOTIATING POSITION.

6. O'BRIEN SAID HE HAD DISCUSSED THE DRAFT DECREE WITH GULF VICE PRESIDENT LUMPKIN WHO BELIEVED IT WOULD BE USELESS TO ATTEMPT TO MAKE THE DECREE ACCEPTABLE BY TRYING TO AMEND IT. O'BRIEN WAS WILLING, HOWEVER, TO PREPARE A NEW DRAFT DECREE FOR SUBMISSION TO VARGAS ON DECEMBER 27. WE AGREED THAT THIS DRAFT WOULD EMBODY THE MAIN POINTS IN THE GOE-USG MEMORANDUM AND WOULD PROBABLY INCLUDE A MECHANISM FOR GULF TO REMAIN IN FACT A MEMBER OF THE CONSORTIUM WHILE ALLOWING CEPE TO PUBLICLY TAKE OVER GULF'S SHARE AS OF DECEMBER 31.

7. I FRANKLY BELIEVE VARGAS WILL REJECT GULF'S PROPOSAL. IN THAT CASE, I WILL GO TO THE SUPREME COUNCIL AND MAKE IT VERY CLEAR THAT I BELIEVE THAT GULF WILL BE WELL WITHIN ITS RIGHTS TO TAKE ACTION
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TO PROTECT ITSELF, E.G. BY \$67 MILLION IN NET DEPOSITS AND BY GOING INTO U.S. COURTS TO EMBARGO CEPE SHIPMENTS TO THE UNITED STATES. I WILL ALSO EMPHASIZE THAT THE GOE CANNOT EXPECT ANY COOPERATION FROM THE USG UNTIL THE GULF CASE IS SETTLED SATISFACTORILY.

8. COMMENT:

I BELIEVE POVEDA'S FLIP-FLOP IS BECAUSE THE COUNCIL FEELS ITSELF TOO WEAK TO FACE DOWN VARGAS ON THIS ISSUE. THIS IS PARTICULARLY THE CASE WITH GENERAL DURAN, WHO HAS RECENTLY SURVIVED AN ATTEMPT TO TOPPLE HIM BY ONE FACTION IN THE ARMY AND MUST NOT BE ANXIOUS TO CONFRONT A CHALLENGE FROM ANOTHER QUARTER-VARGAS. AT THE SAME TIME, WE CONTINUE TO HEAR THAT VARGAS WILL BE REMOVED AS PART OF A CABINET SHUFFLE - NOW SCHEDULED FOR THE FIRST WEEK IN JANUARY. IT IS LIKELY THAT VARGAS' PRICE FOR GOING QUIETLY IS A DECREE WHICH TAKES OVER GULF ON DECEMBER 31 AND FOR WHICH HE CAN CLAIM CREDIT WHEN HE MAKES HIS BID FOR THE TOP SPOT AT SOME FUTURE DATE. MY TASK AND GULF'S IS TO GIVE POVEDA A DECREE

THAT SATISFIES VARGAS' NEEDS VIS-A-VIS HIS PUBLIC IMAGE BUT DOES
NOT GIVE AWAY THE BALLGAME.
BLOOMFIELD

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